The Churchill Corporation Annual Report 1995

Churchill

"Churchill's mission is to maximize client value in the construction process by partnering with owners to profitably deliver project-related services appropriate to fulfilling each owner's needs."

Strategic Direction

Churchill is well into its long term strategic plan to become a diversified construction operation. The core construction businesses operate in three fields; general commercial construction, general industrial construction and specialty industrial construction. The disposition of the non-core assets continues to be accelerated as the focus on the construction industry becomes sharper and more well defined.

Corporate Profile

The Churchill Corporation is a public company, listed on the Alberta Stock Exchange (CUQ). The Corporation has 261 registered shareholders of 17,731,920 Class A common shares and 2 registered holders of 6,752,144 preferred shares. Both common and preferred shares having voting status.

The Corporation's head office is in Edmonton and subsidiaries have offices located in Edmonton, Calgary, Vancouver, Regina, and Fort McMurray. The Corporation has a nine member Board of Directors, an Executive Committee, Audit Committee and Human Resources Committee.

Subsidiaries

Stuart Olson Construction Ltd.	100%
Insulation Holdings Inc.	100%
Triton Projects Limited Partnership	80%
Churchill Resource Investments Inc.	100%

Affiliates

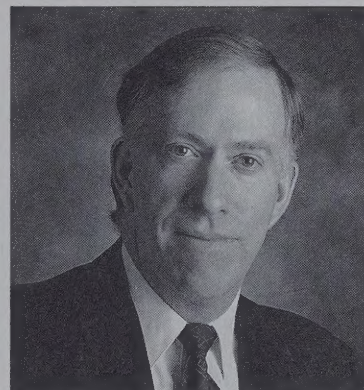
Lafrentz Road Services Ltd.	41%
Russell Technologies Inc.	47%
Shippers Supply Inc.	35%

Report to Shareholders

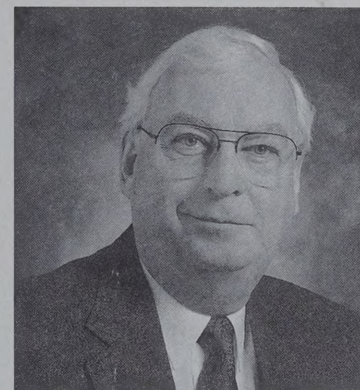
Churchill Corporation's results for the year ended December 31, 1995 reflect a year of contrasts for the Corporation. Our forecast of a positive year, with strong operating and financial results, was met at the operating levels despite the competitive climate in which Churchill companies have had to perform.

Total Revenues for The Churchill Corporation in 1995 are $132 million with percentage margins being maintained at reasonable levels relative to 1994 when revenues were $146 million. Results were positively supported by increased Other Income from the sale of surplus assets, the recovery of income taxes, and by reduced Administration and Interest expenses of 11% and 18% respectively. Net earnings before asset revaluations are $688,000 in 1995 compared to $227,000 for 1994.

In contrast to its stronger operating results, Churchill revalued a non-core asset in 1995. The asset revaluation is largely a consequence of the depressed Edmonton residential real estate industry. Single family housing starts have fallen to their lowest point in 25 years and there is an over supply of inventory. This market deterioration has significantly extended the anticipated recovery life of an agreement receivable which Churchill holds from its joint venture investment. In order to provide for this added exposure, management has increased the allowance for doubtful accounts by $2.0 million in 1995. The remaining $414,000 in revaluation is an acceleration of goodwill amortization related to past equity acquisitions.



H.R. (Hank) Reid, President and C.E.O.



S. K. Hooper, Chairman

The result of these revaluations is a net loss of $1.7 million in 1995. On a basic and fully diluted basis, this is a loss of $0.11 per share in 1995 compared to a profit of $0.01 per share in 1994.

"Churchill's program of divesting non-strategic assets progressed well in 1995."

Churchill's construction group posted its fifth straight year of profits in 1995, which was achieved in spite of extremely competitive market conditions. The outlook for the construction industry has improved. Government restructuring which has been challenging the industry is expected to translate into a significant investment advantage in the near future for both Alberta and British Columbia. The recent announcements of expansion plans for the tar sands plants and the petro-chemical industry are considered to be the beginning of a broader-based prosperity which will become readily apparent in Alberta within the next three years. Churchill is well positioned to take advantage of this coming activity and remains very positive about its prospects in the western Canadian construction industry over the next decade.

Significant steps were taken in 1995 to further Churchill's long-term strategy of focusing on the contracting business and encouraging close inter-group management links. As part of this strategy, Insulation Holdings completed its withdrawal from the warehousing component of its insulation contracting business, with improved results. During 1995, contracting revenues from Insulation Holdings increased 41% and overall administrative costs decreased by 26%. By year-end 1995, this subsidiary's bank loan was reduced to almost half that required in September, 1994 when the restructuring commenced. Churchill acquired the 20% balance of the minority interest of Insulation Holdings in September, 1995.

Churchill's industrial construction subsidiary, Triton Projects, expanded into the British Columbia market by establishing an office in Vancouver.

This has strengthened Triton's business development capacity and their ability to seek new construction opportunities in B.C.'s chemical, forestry and mining sectors.

Stuart Olson Construction is on track with its business strategy of placing a greater emphasis on the Design Build approach to construction projects. This strategy has resulted in a number of successes for 1995. Stuart Olson completed a 215,000 sq. ft. food distribution centre for Neptune Foods, its largest Design Build to date, and used the Design Build format to successfully construct a large retail outlet for Zellers in Kelowna, B.C. The company continued to maintain its strong position in the Vancouver high-rise market with the completion of Pointe Claire, a 35-storey residential tower, which is the highest residential building in the Lower Mainland. In Alberta, where Stuart Olson has always been a major builder of institutional projects, the company completed construction of Calgary's Falconridge Jr. High School and Canmore's new Collegiate High School.

Churchill's affiliate companies were active throughout the year. Shippers Supply Inc. significantly improved its capacity to grow and improve efficiency by moving its Edmonton head office and distribution centre to an expanded 86,400 sq. ft. facility. Russell Technologies Inc. has completed commercialization of the "Hydroscope", its revolutionary water line investigation tool, and signed its first international licensing agreement. Successful Hydroscope field trials were carried out by Russell in Canada, Australia, and the United Kingdom.

Lewis Estates, an Edmonton golf course and residential development owned by a joint venture involving Churchill, had an active year of development on the golf course. Although lot sales were relatively depressed due to a slump in the local residential real estate market, Lewis Estates was one of the more active subdivisions in Edmonton in 1995. The nine-hole golf course had an 18% improvement in rounds played and construction of the back nine holes is near completion and on schedule for a summer 1996 opening.

"Churchill's construction group posted its fifth straight year of profits in 1995."

Churchill's program of divesting non-strategic assets progressed well in 1995 generating $3.2 million in cash. During the year, Properties for Sale was reduced by 30% and Property and Equipment by 23%. Prices achieved for property sales in 1995 were 21% higher than book value. These asset sales were a key component in the $4.7 million debt reduction in 1995, to a level 22% below December 31, 1994.

Since 1990, Churchill's consolidated debt has been reduced by $12 million. The strategic direction established in 1991/1992 has proved itself and the resulting operating framework implemented in the years since has been undertaken successfully on schedule. The Corporation's operations and financial abilities are stabilized, and the Corporation enjoys improved liquidity and a stronger balance sheet.

The strategic approach of growing Churchill's core construction business and aligning its marketing to the profitable niche sectors of its industry has seen Churchill evolve from its roots as a real estate conglomerate with investments in a variety of businesses to its present status as a broadly based construction organization.

The Board of Directors and management wish to acknowledge, with thanks, the support of Churchill's shareholders and the invaluable contribution of the employees of the Churchill group of companies. Their loyalty and dedication is a significant factor in the achievement of Churchill's promise.

H.R. (Hank) Reid
President and C.E.O.

Stanton K. Hooper
Chairman

Management's Discussion and Analysis

The following discussion and analysis of the financial condition and results of the operations of the Corporation should be read in conjunction with the consolidated financial statements and related notes included in this Annual Report.

The Corporation continues to concentrate its operations in the western Canadian construction market place. Its subsidiaries, Stuart Olson Construction Ltd., Insulation Holdings Inc. and Triton Projects Group provide construction services in the general contracting, insulation contracting and industrial contracting market sectors.

In 1995 the Corporation wrote off $396,000 of goodwill related to a business acquired in 1988. In assessing the value of goodwill, management estimated the value of the entity by discounting future after-tax cash flow.

Operating Results

Revenue of $132 million is down 7.4% from 1994 due largely to a softening of the British Columbia market. The more competitive market place has put pressure on profits and the consequence of this is a lower margin of 7.4%, down from 8.2% in 1994.

In keeping with the objective to divest all non-core assets the Corporation sold two real estate properties which were previously included in Property and Equipment. These two dispositions provided an aggregate gain of $570,000 which is included in Other Income. This gain, $510,000 higher than the gain from a similar disposition in 1994, is the most significant year over year change in Other Income.

"Indirect and Administrative Expenses decreased by 10% in 1995."

Also included in Other Income is the net equity profit of $93,000 from Churchill's investment in non-core affiliates. This is down $26,000 from 1994 reflecting poorer results in aggregate by these affiliates. The Corporation continues to look for divestiture opportunities for these minority equity positions.

Indirect and Administrative Expenses decreased 10% to $9.0 million in 1995 from $10.0 million in 1994. This decrease results primarily from efficiencies achieved in a subsidiary by divesting its ancillary warehousing and distribution business late in 1994.

Interest Expense for 1995 is reduced by $238,000 despite a 2% increase in the average prime rate over 1994. This improvement is directly attributable to the $4.7 million decrease in interest bearing debt.

A reversal of a subsidiary deferred tax liability contributed $820,000 to reported earnings.

As noted in the Report to Shareholders, management has revalued the Corporation's joint venture investment in a land development project which is included in Agreements Receivable and Other. A slump in the Edmonton residential market has caused a 20% erosion of lot prices. In conjunction with this, single family housing starts in 1995 were at a 25 year low and available inventory abnormally high. Management's assessment of the long term implications of these market conditions indicates that initial cash flow from this investment is at least 12 years in the future. Furthermore, this assessment is based on a number of assumptions which, by virtue of the long time factor, contain a degree of uncertainty. Accordingly, management concluded it prudent to write down the carrying value of this investment by

$2.0 million. The Corporation is not required to provide any significant future funding for this joint venture other than an existing contingency requirement relating to the $500,000 security pledge as discussed in Note 4.

Liquidity

Churchill's main sources of liquidity are cash-flow generated from operations together with its bank credit facilities. During the year a subsidiary established a $2 million operating line of credit with the Bank of Nova Scotia. This new credit facility replaced a $1.5 million operating line with Barclays Bank of Canada when it withdrew from the Canadian commercial lending market.

At December 31, 1995, the Corporation and its subsidiaries had aggregate credit facilities consisting of $18.5 million in operating lines and $3.7 million in term loans. The group was in compliance with the terms of its credit facilities throughout the year and, at December 31, 1995, had aggregate unused lines of credit of $8.5 million (1994: $5.1 million).

Working capital at December 31, 1995 decreased to $5.7 million from $6.5 million at December 31, 1994 while the working capital ratio shows a small improvement. This $800,000 reduction is the result of: (i) cash flow from operations $474,000; (ii) cash flow from sale of assets and from corporate investments $1,280,000; (iii) reduction of long-term debt $(1,884,000); (iv) net agreements receivable advances $(201,000); and (v) reduction in minority interest due to purchasing the minority equity position of a subsidiary $(496,000).

"Interest Expense for 1995 is reduced by $238,000 despite a 2% increase in the average prime rate over 1994."

Property and Equipment

The Corporation's investment in property and equipment is predominantly construction assets utilized by the operating subsidiaries. The downsizing program effected in 1993 caused certain of these assets to be declared surplus and the disposal program was completed in 1995. The most significant dispositions during the year were a shop facility and a warehouse, located in Calgary, which were each sold at a gain.

Shareholders' Equity

Following the Annual General Meeting in May, 1995 a Special Meeting of the shareholders was held to consider and pass a resolution to reduce the stated capital of the Corporation to a nominal value of $1.00. Subsequently, the Board of Directors resolved to apply the contributed surplus portion of equity to reduce the deficit. As a result of these two resolutions, the deficit was reduced by $23,619,013 during 1995. This realignment of the equity section of the balance sheet, which has no impact on total Shareholders' Equity, was made because the result is considered to be a clearer presentation.

Management's Report

The accompanying financial statements and all information in this Annual Report are the responsibility of management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain estimates that reflect management's best judgement. Financial information contained throughout this Annual Report is consistent with the financial statements.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records properly maintained to provide reliable information for the preparation of financial statements.

Deloitte & Touche, an independent firm of Chartered Accountants, was appointed by a vote of shareholders at the Corporation's last annual meeting to examine and report on the consolidated financial statements of the Corporation in accordance with generally accepted auditing standards.

The Board of Directors has approved the information contained in the consolidated financial statements. The Board fulfills its responsibility in this regard mainly through its Audit Committee which has discussed the financial statements, including the notes thereto, with management and external auditors.

H.R. Reid

H.R. (Hank) Reid
President and Chief Executive Officer

T.B. Dunnigan

Terrance B. Dunnigan, C. A.
Vice President Finance

Auditors' Report

To the Shareholders of The Churchill Corporation

We have audited the consolidated balance sheets of The Churchill Corporation as at December 31, 1995 and 1994 and the consolidated statements of earnings, deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1995 and 1994 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Deloitte & Touche

Chartered Accountants
Edmonton, Alberta
March 13, 1996

Consolidated Balance Sheets

December 31, 1995

	(in thousands)	1995	1994
ASSETS	Current Assets		
	Cash and Term Deposits (Note 2)	**$ 6,136**	$ 13,365
	Accounts Receivable	**24,173**	29,231
	Inventories and Prepaid Expenses	**1,823**	2,014
	Properties for Sale (Note 3)	**3,386**	4,859
	Current Portion of Agreements Receivable (Note 4)	**140**	113
		35,658	49,582
	Agreements Receivable and Other (Note 4)	**1,139**	2,938
	Corporate Investments (Note 5)	**3,330**	3,474
	Property and Equipment (Note 6)	**3,056**	3,988
	Goodwill	**—**	404
		$ 43,183	$ 60,386
LIABILITIES	Current Liabilities		
	Bank Indebtedness (Note 7)	**$ 10,020**	$ 12,920
	Accounts Payable	**13,105**	21,878
	Contract Advances and Unearned Income	**5,803**	6,493
	Deferred Income Taxes (Note 8)	**—**	801
	Current Portion of Long-Term Debt (Note 9)	**1,058**	995
		29,986	43,087
	Long-Term Debt (Note 9)	**5,781**	7,665
	Deferred Income Taxes (Note 8)	**72**	68
	Minority Interest	**566**	1,062
		36,405	51,882
SHAREHOLDERS' EQUITY	Shareholders' Equity (Note 10)	**6,778**	8,504
		$ 43,183	$ 60,386

Approved by the Board:

Director

Director

Consolidated Statements of Earnings

Year Ended December 31, 1995

(in thousands)	1995	1994
Revenue	$ 132,099	$ 145,764
Direct Costs	123,008	134,692
	9,091	11,072
Other Income (Note 11)	1,476	948
	10,567	12,020
Indirect and Administrative Expenses	8,984	10,015
Depreciation and Depletion Expense	646	724
Earnings Before Undernoted Items	937	1,281
Interest Expense	(1,085)	(1,323)
Recovery of Income Taxes (Note 8)	892	376
Minority Interest	(56)	(107)
Net Earnings Before Asset Revaluation	688	227
Asset Revaluation (Note 12)	(2,414)	—
Net (Loss) Earnings	$ (1,726)	$ 227
Basic and Fully Diluted (Loss) Earnings Per Common Share	$ (0.11)	$ 0.01

Basic and fully diluted (loss) earnings per common share is calculated after deducting annual preferred dividends in arrears of $279,995 (1994: $118,464). The weighted average number of common shares outstanding during the year was 17,731,920 (1994: 13,588,927).

Consolidated Statements of Deficit

Year Ended December 31, 1995

(in thousands)	1995	1994
Deficit, Beginning of Year	$ (24,944)	$ (25,171)
Reduction of Stated Capital (Note 10)	15,387	—
Reduction of Contributed Surplus (Note 10)	8,232	—
Net (Loss) Earnings	(1,726)	227
Deficit, End of Year	$ (3,051)	$ (24,944)

Consolidated Statements of Changes in Financial Position

Year Ended December 31, 1995

	(in thousands)	1995	1994
OPERATING ACTIVITIES	Net (loss) earnings	$ (1,726)	$ 227
	Add (deduct) non-cash items		
	Net equity profit	(93)	(119)
	Depreciation, depletion and goodwill amortization	666	786
	Gain on sale of assets	(787)	(185)
	Asset revaluation	2,414	—
		474	709
	Change in minority interest	(496)	(38)
	Net change in accounts receivable, inventories and prepaid expenses	5,249	13,730
	Net change in accounts payable, contract advances and unearned income	(9,463)	(9,399)
	Change in deferred income taxes	(797)	(355)
		(5,033)	4,647
INVESTING ACTIVITIES	Proceeds on sale of assets	3,159	2,019
	Proceeds from corporate investments	89	1,649
	Change in agreements receivable	(228)	235
	Additions to assets	(495)	(547)
		2,525	3,356
FINANCING ACTIVITIES	Decrease in bank indebtedness	(2,900)	(881)
	Long-term debt repayment	(1,821)	(2,503)
	Issuance of common shares	—	1,671
	Redemption of preferred shares	—	(1,671)
		(4,721)	(3,384)
	(Decrease) Increase in Cash	(7,229)	4,619
	Cash and Term Deposits, Beginning of Year	13,365	8,746
	Cash and Term Deposits, End of Year	$ 6,136	$ 13,365

Notes to the Consolidated Financial Statements

December 31, 1995

1. Significant Accounting Policies

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada, and reflect the following policies:

Consolidation

The consolidated financial statements include the accounts of the following subsidiaries and limited partnership:

Stuart Olson Construction Corporation (100%)

Stuart Olson Construction Ltd. (100%)

Insulation Holdings Inc. (100%) (80% to June 30, 1995)

Triton Construction Inc. (80%)

Triton Projects Limited Partnership (80%)

Churchill Resource Investments Inc. (100%)

Northern Insulation Contracting Inc. (100%)

Inventories

Inventories are recorded at the lower of cost and net realizable value.

Corporate Investments

Corporate investments include equity interests in operating companies. These interests, where the Corporation has significant influence, are accounted for on the equity basis. Where the investee's year end precedes December 31, the Corporation's share of earnings is determined up to the investee's year end, adjusted for the impact of any significant subsequent results.

Properties for Sale

Properties for sale are recorded at the lower of cost and net realizable value.

Leasing costs on commercial properties are capitalized and amortized over the lease period.

Carrying costs, including property taxes, interest on debt and administration expenses are capitalized on undeveloped land for sale only if the resultant carrying value does not exceed estimated net realizable value.

Income from the sale of properties is recognized when the Corporation has fulfilled all material conditions and received an appropriate down payment.

Developed properties are depreciated on a 5% sinking fund basis over 40 years.

Property and Equipment

Property and equipment are recorded at cost and are depreciated using both the diminishing-balance and straight-line methods at the rates indicated in Note 6.

Contract Income

Revenue from construction contracts is recognized on the percentage of completion basis. Percentage of completion is determined by relating the actual cost of work performed to date to the current estimated total cost for each contract. Any projected loss is recognized immediately.

Goodwill

Goodwill is calculated as the excess purchase price paid on the acquisition of subsidiary and affiliated companies over the value assigned to identifiable net assets acquired and is amortized on a straight-line basis over periods not exceeding 20 years.

2. Cash and Term Deposits

Cash and term deposits include $4,183,624 (1994: $10,569,747) the use of which is restricted to the payment of direct costs related to specific construction projects.

3. Properties for Sale
(in thousands)

	1995	1994
	Net Book Value	Net Book Value
Developed properties	$ 3,931	$ 6,672
Undeveloped land	2,799	3,251
	6,730	9,923
Cumulative valuation adjustments	(3,344)	(5,064)
	$ 3,386	$ 4,859

Developed properties are net of accumulated depreciation of $347,965 (1994: $631,610).

4. Agreements Receivable and Other
(in thousands)

	1995	1994
Agreement receivable	$ 4,872	$ 4,688
Term deposit	500	500
Mortgages and notes receivable		
Non-interest bearing	10	85
Interest at 6% to 9%	157	162
Interest at 9.25% to 12%	438	314
Allowance for doubtful accounts	(4,698)	(2,698)
	1,279	3,051
Less current portion	(140)	(113)
	$ 1,139	$ 2,938

The agreement receivable is repayable from future cash flow of the debtor with the first payment expected in 2007. The advances bear interest at Prime + 2%, however, due to the uncertainty of collecting the interest the Corporation has not recognized this income for 1994 and 1995. The $500,000 term deposit is pledged as security for other obligations of the debtor.

5. Corporate Investments
(in thousands)

	1995	1994
Equity investments		
Preferred shares – up to 9% dividend rates	$ 648	$ 648
Net equity	1,998	2,019
	2,646	2,667
Oil and gas interests, net of accumulated depletion of $655,143 (1994: $548,031)	684	807
	$ 3,330	$ 3,474

Unamortized goodwill included in equity investments is $341,176 (1994: $371,174). Preferred shares have cumulative dividend rights and are redeemable from profits of the investees. Preferred dividends in arrears, which have not been reflected in income, are $268,225 (1994: $222,325).

6. Property and Equipment
(in thousands)

	1995			1994	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value	Depreciation Rates
Land	$ 578	$ —	$ 578	$ 871	
Buildings and improvements	1,958	827	1,131	1,449	4% - 25%
Equipment and furnishings	6,310	4,963	1,347	1,668	6% - 33⅓%
	$ 8,846	$ 5,790	$ 3,056	$ 3,988	

7. Bank Indebtedness

Bank indebtedness is payable on demand, bears interest at varying rates from Prime + 0.75% to Prime + 1.50% and is secured by floating charge debentures, general assignments of book debts and pledging of specific assets.

8. Income Taxes
(in thousands)

	1995	1994
The income tax recovery consists of:		
Current recovery	$ 95	$ 21
Deferred recovery	797	355
	$ 892	$ 376

The consolidated group's effective tax rate approximates 45%. However, due to the utilization of previously unrecognized tax losses carried forward and losses in subsidiaries used to reduce deferred income taxes payable, the provision for income taxes does not reflect the effective rate.

Deferred income taxes result primarily from a subsidiary's deduction for income tax purposes of accounts and holdbacks receivable not due until the following year.

The consolidated group has accumulated non-capital losses for income tax purposes of $10,900,000 which may be carried forward and used to reduce taxable income in future years. If not utilized, these losses will expire as follows:

1997	$ 2,000
1998	700
1999	2,100
2000	2,800
2001	900
2002	2,400

These financial statements have recognized $3,850,000 of the above tax losses carried forward through the reduction of deferred income tax liability.

The consolidated group also has accumulated net-capital losses for income tax purposes of $6,700,000 which may be carried forward indefinitely to reduce taxable capital gains in future years.

9. Long-Term Debt
(in thousands)

	1995	1994
Demand bank loans (Prime + 1.25% to Prime + 1.75%)	$ **3,732**	$ 4,481
Mortgages (Prime + 0.5% to 9.0%)	**—**	859
Promissory note	**2,650**	2,650
Unsecured loan	**457**	670
	6,839	8,660
Less current portion	**(1,058)**	(995)
	$ **5,781**	$ 7,665

Demand bank loans, with scheduled repayments to February, 2004, are secured by floating charge debentures, assignments of book debts, and pledging of specific assets.

The promissory note is unsecured and bore interest at 11% to June 30, 1994. The adjusted note agreement, effective July 1, 1994, sets out scheduled annual repayments to 1999 with an interest rate of 5% per annum. The actual repayments and the interest charged may be reduced depending on the Corporation's annual net income after tax. These amounts are due April 30th after the fiscal year end. Any difference between the interest charged and the 5% maximum is forgiven and any difference between the principal paid and the scheduled repayment is deferred until June 30, 1999. Based on the Corporation's 1995 earnings, no principal amounts are owing April 30, 1996 (1995: nil) and the interest charged for 1995 was nil (1994: $178,129). The remaining annual principal payments are now scheduled to be $530,000 on April 30, 1997 to 1999 plus a final payment of $1,060,000 on June 30, 1999.

The unsecured loan is payable in quarterly instalments of $99,750 in 1996 plus a final payment of $87,200 on December 31, 1996. The loan is non-interest bearing and the required payments have been discounted at 9% to reflect the present value of the instalments due.

Interest cost on long-term debt during the year was $501,013 (1994: $645,082).

Estimated principal amounts due in each of the next five years, assuming the promissory note repayment is as scheduled, are as follows:

1996	$ 1,057
1997	1,247
1998	930
1999	1,990
2000	400

10. Shareholders' Equity
(in thousands)

	1995	1994
Share capital	$ 9,829	$ 33,448
Deficit	(3,051)	(24,944)
	$ 6,778	$ 8,504

Share capital

Authorized

10,000,000	First preferred shares issuable in series with rights set by the directors
10,000,000	Second preferred shares issuable in series with rights set by the directors
110,000,000	Class A common shares

Issued

1995	Shares	Share Capital	Contributed Surplus	Total
Series A first preferred	4,829,069	$ 4,829	$ —	$ 4,829
Series A second preferred	1,923,077	5,000	—	5,000
Total preferred		9,829	—	9,829
Class A common				
Issued, beginning of year	17,731,920	15,387	8,232	23,619
Credited to deficit	—	(15,387)	(8,232)	(23,619)
Issued, end of year	17,731,920	—	—	—
		$ 9,829	$ —	$ 9,829

1994	Shares	Share Capital	Contributed Surplus	Total
Series A first preferred				
Issued, beginning of year	6,500,000	$ 6,500	$ —	$ 6,500
Less: redeemed	(1,670,931)	(1,671)	—	(1,671)
Issued, end of year	4,829,069	4,829	—	4,829
Series A second preferred	1,923,077	5,000	—	5,000
Total preferred		9,829	—	9,829
Class A common				
Issued, beginning of year	9,377,265	13,716	8,232	21,948
Add: issued from treasury	8,354,655	1,671	—	1,671
Issued, end of year	17,731,920	15,387	8,232	23,619
		$ 25,216	$ 8,232	$ 33,448

10. Shareholders' Equity
(continued)

Rights to acquire 1,923,077 (1994: 1,923,077) Class A common shares at $2.60 (1994: $2.60) are outstanding and exercisable January 1, 1996 through to December 31, 1997.

Options and Conversion Rights

The Corporation has granted its senior employees and directors options to purchase up to 500,000 (1994: 520,000) Class A common shares at $0.10 which expire July 15, 1999 and up to 330,000 (1994: nil) Class A common shares at $0.10 which expire May 17, 2000.

Reduction of Stated Capital

At a Special Meeting of the shareholders it was resolved that the sum of $15,386,465 be subtracted from the stated capital account of the Class A common shares of the Corporation reducing the amount of such stated capital account to a nominal amount of $1.00. This reduction was applied to reduce the deficit of the Corporation.

Reduction of Contributed Surplus

The Board of Directors resolved that the Contributed Surplus of the Corporation in the amount of $8,232,638 be applied to reduce the deficit of the Corporation.

Preferred Shares

The Series A 8% cumulative first preferred shares are redeemable at $1.00 per share and the Series A 8% second preferred shares are redeemable at $2.60 per share. The preferred shareholders have agreed to waive the right to future dividends for the first and second preferred shares accruing after September 20, 1995 and June 30, 1994 respectively. In addition, it has been agreed that payment of cumulative dividends in arrears and subsequent redemptions of preferred shares will be based on annual earnings and, in any event, deferred until the promissory note is repaid in full (Note 9).

The fixed cumulative dividends on first preferred shares remain unpaid for the period July 1, 1990 to September 20, 1995 and on second preferred shares for the period July 1, 1990 to June 30, 1994 and total $3,618,420 (1994: $3,338,464). The Articles of the Corporation provide that, in the event dividends on preferred shares remain unpaid for any reason for two calendar years, such preferred shares become voting shares on the basis of one vote per share and such shares continue to have voting rights attached until all dividends have been paid. All the preferred shares are held by two shareholders and are now voting shares.

11. Other Income
(in thousands)

	1995	1994
Interest income	$ **247**	$ 123
Equity profit	**93**	119
Dividends	**—**	60
Amortization of affiliates' goodwill	**(30)**	(30)
Oil and gas	**228**	48
Management fees	**101**	121
Gain on asset disposals	**787**	185
Sundry	**50**	322
	$ **1,476**	$ 948

12. Asset Revaluation
(in thousands)

Asset revaluation for 1995 consists of:

Writedown of goodwill	$	414
Increase allowance for agreement receivable		2,000
	$	2,414

13. Contingencies

(a) Subsidiaries of the Corporation are contingently liable for normal contractor obligations relating to performance and completion of construction contracts and for obligations of an associate in an unincorporated joint venture.

(b) The Corporation and its subsidiaries are defendants in lawsuits involving various amounts. Management is of the opinion that the results of these actions should not have any material effect on the financial position of the Corporation. Any awards or settlements will be reflected in income as the matters are resolved.

14. Commitments
(in thousands)

The Corporation and its subsidiaries lease certain equipment, vehicles and office premises. Under existing terms of the leases, future minimum lease payments over the next five years are:

1996	$	811
1997		758
1998		584
1999		515
2000		415

15. Comparative Figures

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

December 31, 1995

16. Segmented Information

(in thousands)

	1995			
	Construction	Equity Investments	Other	Consolidated
Revenue	$ 131,678	$ —	$ 421	$ 132,099
Direct Costs	122,726	—	282	123,008
	8,952	—	139	9,091
Other Income	348	164	964	1,476
	9,300	164	1,103	10,567
Indirect and Administrative	7,702	—	1,282	8,984
Depreciation and Depletion	385	—	261	646
Earnings (Loss) Before Undernoted Items	$ 1,213	$ 164	$ (440)	937
Interest				(1,085)
Recovery of Income Taxes				892
Minority Interest				(56)
Asset Revaluation				(2,414)
Net Loss				$ (1,726)
Identifiable Assets	$ 34,916	$ 2,645	$ 5,622	$ 43,183
Capital Expenditures	$ 408	$ —	$ 87	$ 495

	1994			
	Construction	Equity Investments	Other	Consolidated
Revenue	$ 145,346	$ —	$ 418	$ 145,764
Direct Costs	134,403	—	289	134,692
	10,943	—	129	11,072
Other Income	265	270	413	948
	11,208	270	542	12,020
Indirect and Administrative	8,581	—	1,434	10,015
Depreciation and Depletion	511	—	213	724
Earnings (Loss) Before Undernoted Items	$ 2,116	$ 270	$ (1,105)	1,281
Interest				(1,323)
Recovery of Income Taxes				376
Minority Interest				(107)
Net Earnings				$ 227
Identifiable Assets	$ 47,220	$ 2,667	$ 10,499	$ 60,386
Capital Expenditures	$ 116	$ —	$ 431	$ 547

Corporate Directory

Board of Directors

Peter F. Adams

Robert G. Brawn

Stanton K. Hooper

Donald E. Johnson

Bud W. Kushnir

William R. McKenzie

Henry R. Reid

Winston D. Stothert

Brian W. L. Tod, Q.C.

Officers

S. K. Hooper
Chairman

H. R. Reid
President and
Chief Executive Officer

L. A. Patrick
Vice President and
Corporate Counsel and
Corporate Secretary

T. B. Dunnigan, C.A.
Vice President Finance

Annual General Meeting

The Annual General Meeting of Shareholders will be held at 9:00 a.m., May 22, 1996
The Westin Hotel
10135 - 100 Street
Edmonton, Alberta

Legal Counsel

Cook Duke Cox

Milner Fenerty

Ogilvie & Company

Auditors

Deloitte & Touche

Transfer Agent

The R-M Trust Company
600 The Dome Tower
333 - 7th Avenue S.W.
CALGARY, Alberta
T2P 2Z1

Bankers

Alberta Treasury Branches

Bank of Nova Scotia

Barclays Bank of Canada

Exchange Listing

Alberta Stock Exchange
Trading Symbol: "CUQ"

Executive Offices

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April 10, 1996

Churchill

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